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Profit Implications of Joint Development

Three Institutional Approaches

November 1984

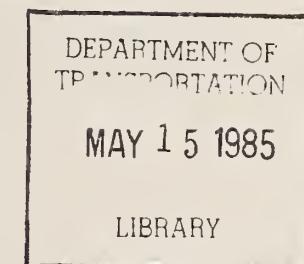


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Profit Implications of Joint Development Three Institutional Approaches

Final Report
November 1984

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EXECUTIVE SUMMARY

Joint development and system interface projects in connection with the construction, reconstruction or general improvement of rapid transit stations or bus and/or intermodal terminals can clearly be profitable undertakings for public transit authorities -- even where "profit" is defined only as the net proceeds remaining from the sale or lease of joint development properties (or other means of "value capture") after subtracting in-house staff, consultant, and incremental capital costs incurred to complete and administer such projects. When transit system ridership and net farebox revenues are also enhanced, as is virtually always the case, and the cash value of capital improvements to station areas provided by developers is included, the total "profitability" of joint development projects can be very significant, indeed.

This conclusion is fully supported by information obtained from several public transit authorities surveyed for this report:

- In Washington, DC, for example, in connection with constructing its Metrorail rapid transit system, the Washington Metropolitan Area Transit Authority (WMATA) reports that its six completed joint development projects already produce a guaranteed annual revenue exceeding \$1.9 million. The cumulative revenue realized through September 30, 1983 was approximately \$6.3 million.

The projected range of guaranteed annual revenue from October 1, 1983 through June 30, 1988 for these six projects, plus another six at various stages of negotiation, runs from \$24 million to \$33 million.

In addition, WMATA has realized about \$0.5 million from system interface projects through September 30, 1983, and projects a further return of between \$1.0 million and \$1.9 million through June 30, 1988.

Through that date, staff and consultant costs for joint development activities will total \$4.3 million, and for system interface activities, \$0.9 million. All capital costs will have been borne by developers.

Thus, by mid-1988, WMATA will have spent about \$5.2 million on its total "station area development program" to achieve a cumulative value capture return of between \$31.8 million and \$41.7 million -- an estimated benefit-cost ratio of between 6:1 and 8:1.

• In Miami, in conjunction with building the rapid transit system there, the Metro-Dade Transportation Administration (MDTA) projects joint development receipts for the next five years as including \$4.5 million in lease fees and percentages of gross income from certain properties, \$4.0 million in property taxes paid by tenants, and a contribution of \$13.0 million in capital costs for parking garages, for a total of \$21.5 million.

Counting the value of developer-built structures, MDTA projects its joint development program "profit" through the next five years to be about \$23.5 million, as against a staff and consultant cost of some \$2.0 million -- a benefit-cost ratio of nearly 12:1.

• In Denver, making the point that important value capture returns are possible to all-bus transit system operators, the Denver Regional Rapid Transit District (RTD) has leased air rights over the city's "Civic Center Transit Facility" for \$400,000 in each of the first fifteen years, plus 38 percent of the developer's profit after it first deducts a 13.5 percent return on its cash investment. Upon expiration of the lease, RTD will own the 600,000 square-foot office building. In return, the RTD incorporated foundation support for the private development in its construction of the transit facility.

RTD expects to recoup its \$1.6 million investment within four to five years, and then to experience a cumulative lease income between 1986 and the year 2000 of about \$15.2 million -- most of which will be "profit".

Transit authorities in San Francisco, Philadelphia, Boston, and Atlanta, where rapid transit systems already exist, are also inaugurating new joint development programs that they anticipate will be directly profitable to themselves through air rights leases. In several cases, they have already been involved in joint development projects for many years, but have enjoyed no direct value capture returns because the projects were sponsored by other public agencies, such as redevelopment authorities, which received all direct value capture returns. The new joint development programs will now be planned and executed by the transit authorities themselves.

In some cities, where rapid transit systems do not yet exist but are being planned, transit authorities are looking towards joint development as an important source of future operating revenues. In Los Angeles, for example, the Southern California Rapid Transit District expects to realize significant value capture income upon completion of its Wilshire Boulevard "starter line" of a regional rapid transit system. The draft environmental impact statement for the line estimates that 65-year leases of air rights above the nine proposed stations offering the best development potential could produce about \$692 million, or about \$10.6 million per year in 1982 dollars.

In most cases, in-house staff and consultant costs to organize and maintain joint development programs are relatively modest in comparison to the revenues achievable from value capture.

In most cases, also, transit authorities do not incur incremental capital costs in building rapid transit stations as part of joint development sites; several authorities report that, in fact, developers are required to make capital contributions that become authority-owned property.

Although it is possible for transit authorities to negotiate lease payments that begin well before a joint development project is completed and earning revenue for its developer, at least three to five years will normally elapse between a transit authority's making initial joint development program expenditures and its receiving significant value capture returns in the form of lease/sale proceeds and ridership/farebox revenues.

In view of the significant profits ultimately attained, such delays seem relatively inconsequential -- almost any kind of public investment usually requires many years to pay off financially. Moreover, the evidence suggests that,

through time in any given metropolitan area, such delays may decrease and relative profitability from particular projects may increase as successful projects breed still more successful projects.

At least three institutional approaches to joint development planning and implementation can be described:

- The autonomous transit authority approach calls for the establishment within a transit authority of one or more special departments responsible for all land acquisition, preparation of station area development prospectus materials, and the negotiation of property sales and leasing.
- The cooperative agreement approach finds various local public agencies, including the transit authority, entering into contractual agreements that combine their planning responsibilities and legal authorities to carry out those specific development and infrastructure-related activities most appropriate to their particular expertise.
- The transportation corridor development corporation approach requires the creation of a special-purpose public or quasi-public entity, normally operating under the authority and budget control of a municipality, to coordinate and package land use development within both an entire transit corridor and around the rapid transit station areas therein.

Each of these institutional approaches (and various hybrid combinations) have particular advantages and disadvantages. Contributors to this report were nearly unanimous in suggesting that there is no "best" approach from an institutional standpoint. Success depends on the proper consideration of the different inter-agency, inter-personal, and political backgrounds found within different metropolitan areas.

The participating transit authority should be aware, however, that its share of eventual value capture proceeds may vary depending upon the approach taken. In Baltimore, for example, where the Market Center Development Corporation (MCDC) is responsible for the joint development program being undertaken in connection with building the city's new rapid transit system, the Mass Transportation Administration (MTA) receives no part of the lease/sale proceeds from joint

development project properties. This has also been the situation in certain other cities where renewal or redevelopment agencies have generally been the sponsors of joint development projects.

Whatever the institutional approach taken, the experience to-date suggests that "good" joint development planning shares a number of common attributes, among them:

- The adoption of integrated policies, not only with regard to how joint development projects will be planned and implemented, but also with regard to long-range city and regional developmental goals, and how joint development may contribute to reaching those goals. A joint development program should not simply be "grafted onto" the construction of a rapid transit system or other major transit improvement without regard to the larger regional setting.
- The acceptance by both cognizant public sector agencies and private sector developers of the critical need for a true decisionmaking partnership in which on both sides there is (1) active and persuasive leadership, (2) clearly understood objectives, (3) flexibility for negotiating alternative plans, (4) shared planning and implementation responsibilities, and (5) a resulting "win-win" situation, with mutual benefits. A business-as-usual attitude on either side will not produce a successful joint development program.
- The development by the transit authority (or other responsible public agency) of an adequately sized and experienced joint development staff to undertake real estate project packaging, and to negotiate effectively with developers and financial institutions. It can be a serious mistake to underestimate the complexity of the packaging/negotiation process, and to misjudge the resources allocated to it. Often, the expertise needed is not present in transit authority management or planning departments, and must be developed by bringing in new staff specialists.

Finally, this review of the "profitability" of joint development programs is timely because of the expected shortfall of public funding for the extension of existing rapid transit systems and the proposed construction of

certain new systems. Since the associated \$28 billion rail capital needs cannot nearly be met through traditional funding mechanisms, it would seem that dependable cash income from joint development project programs should properly be considered an indispensable means of helping to finance both the construction and operation of new rail systems and system extensions. Even where such major capital needs do not exist, however, transit authorities should not overlook joint development programs as a source of income to augment operating revenues.

ABOUT THE PROFITABILITY OF JOINT DEVELOPMENT
AND SYSTEM INTERFACE PROJECTS TO PUBLIC TRANSIT AUTHORITIES

INTRODUCTION

This report provides selected information about the benefits and costs accruing to public transit authorities engaged in joint development and system interface projects in connection with the construction, reconstruction, or general improvement of rapid transit stations or bus and/or intermodal terminals. Such information should -- because it clearly demonstrates the inherent profitability of such projects -- provide clear incentive for those transit authorities that have yet to undertake them. Emphasis will be placed on (1) the Washington Metropolitan Area Transit Authority (WMATA) program because to-date it is the most ambitious and successful in the country, and (2) on the Market Center Development Corporation of Baltimore (MCDC) program because, also ambitious and successful, it represents a strikingly different approach and philosophy.

A review of the "profitability" of joint development programs is timely because of the expected shortfall of public funding for the extension of existing rapid transit systems and the proposed construction of new systems. With systems currently under construction in Washington, Baltimore, Buffalo, Atlanta, Miami, San Jose, and Portland -- and planned for Jacksonville, Dallas, Los Angeles, Long Beach, Sacramento, and Orange County, California -- there is more new rapid transit development taking place now than at any time since the turn of the century. According to the American Public Transit Association, over the next five years, 35 transit systems will have rail capital needs of more than \$28 billion, about half for new construction, and half for rehabilitation of existing systems.

Since this \$28 billion capital requirement cannot nearly be met by traditional 75% federal funding, there must be a sharp increase in local funding, else the planned construction and extension of rapid transit systems simply will not occur. The thesis to be developed in this report is that even the relatively limited experience to-date with transit authority-administered joint development programs suggests that the dependable cash income flow potentially generated through time from such programs should properly be considered an indispensable means of helping to finance both the construction and operation of new systems.

Definitions

As used in this report, and borrowing from WMATA definitions, joint development is:

a project that involves the disposition, by lease or by sale, of transit authority-owned or controlled real property interests, including air rights, which are incremental to direct transit operational needs, at or near a station area which, because of proximity to station facilities, have significant potential for commercial, residential, or related development, alone or in combination with adjoining real property interests to further an authority's development related goals and objectives.

By comparison, system interface is:

a project that involves the direct physical tie-in of pedestrian, vehicular or visual access to transit authority facilities from adjoining private or other public development. Transit authority tie-in facilities could include station mezzanines or entrances, kiss and ride, parking, or bus areas.

Stated another way, joint development typically includes the right of direct access (or system interface). Joint development, via a long-term lease, confers a "bundle of rights" to the developer, the most substantial of which is the leasing of air rights. It includes the disposition of a

relatively large amount of real property interests over a long term. System interface, on the other hand, typically involves very little disposition of real property interests. It basically permits the direct connection of transit with development and may do so for much shorter periods of time; it has less impact on the transit authority and necessitates fewer conditions.

By these definitions, a given station improvement project can involve either joint development alone, system interface alone, or both together. According to the report, System Interface: Economic Impact and Implications of Direct Access to Metro, prepared for WMATA by Gladstone Associates [1], "transit authorities generally have not focused on system interface -- particularly in regard to 'benefit sharing' financing approaches -- in as comprehensive a framework as WMATA at present." Despite this finding, because system interface (1) differs conceptually from joint development, (2) may represent a source of income to transit authorities independent of, and sometimes as important as, joint development income, and (3) may be simpler to plan and implement than joint development, the definitional distinction is maintained wherever possible throughout this report.

Note should be taken that private sector contributions to transit station improvements can take many forms. A discussion paper [2] prepared on behalf of the American Public Transit Association's Policy and Planning Committee by Robert E. Selsam, Director of Planning for New York's Metropolitan Transportation Authority (MTA) describes several mechanisms other than joint development, per se, from which MTA reports some \$80 million to \$100 million worth of private investment is either underway or committed. One of the preferred mechanisms involves MTA's working with city planning and zoning agencies to allow land owners to build to higher densities in return for specified transit station improvements within their buildings. Although such private sector contributions may be considered a kind of joint development, they fall outside the scope of this report.

Although joint development and system interface projects confer various benefits -- such as shaping urban growth patterns, revitalizing central business districts, improving the return on investment by land developers, producing gains in real property tax returns, creating employment, and by increasing transit system ridership reducing traffic congestion and its attendant economic waste and air pollution -- the benefits discussed in this report are specifically limited to the cash or cash-equivalent income realized, or

potentially realizable, by transit authorities from various forms of "value capture."

Value capture, or as some prefer, value sharing, can be accomplished by a variety of innovative financing mechanisms, most familiar among them the sale or lease of joint development and system interface properties and easements, special benefit assessment districts, and tax increment financing. The Rice Center's A Guide to Innovative Financing Mechanisms for Mass Transportation [3] and the Southern California Rapid Transit District's Joint Development and Value Capture in Los Angeles: Local Policy Formulation [4] provide useful discussions.

Although even more innovative value capture mechanisms may be developed in the future, virtually all of the proceeds accruing to transit authorities from joint development and system interface projects to-date have come from the sale or lease of air rights and easements, and from the value of contributed real estate. This report does not attempt to judge the merits of the different means for accomplishing value capture, but does take the position that an appropriate share of such proceeds should always accrue to the participating transit authorities (which, in fact, is not always the case).

With similar specificity, although both joint development and system interface projects may also involve various other costs, the costs discussed in this report are limited to those relating to transit authority staff and consultant requirements for planning and implementing such projects, plus the capital costs, if any, to execute the projects (that is, any incremental capital costs attributable to the projects, over and above the station/terminal construction/reconstruction costs relating to the basic transit system improvements themselves). There may very well be other public sector costs associated with planning and developing such projects -- for example, those incurred by local planning or economic development agencies -- but this report does not attempt to assess them.

Obviously, the implementation of both joint development and system interface projects may require transit authorities to absorb various "up-front" planning and implementation costs well before they begin to receive lease/sale or other value capture proceeds. This need first to spend money in order to make money may be a serious deterrent to some authorities contemplating such projects -- especially when the time-frame for recouping that investment remains somewhat hazy for lack of direct experience (and when there are many competing needs

for scarce capital resources). For that reason, this report will attempt not only to compare benefits and costs, but also to explore the typical elapsed time between initial costs and subsequent returns.

Research Methodology and Report Organization

The research methodology for this report, in keeping with its limited objective and budget, was extremely simple, consisting of: (1) initial in-person interviews with WMATA staff both to collect WMATA benefit/cost data and to discuss the objectives/feasibility of the overall research, (2) inquiry letters to several other major transit authorities, and in some instances follow-up telephone interviews, and (3) a limited review of published reports on the general subject of joint development/system interface planning and implementation (an appendix provides an extensive bibliography).

Except for the Baltimore example, the report looks only at joint development programs planned and undertaken by transit authorities themselves, that is, it does not look at programs and projects that have been undertaken primarily by other kinds of agencies -- such as, for instance, Philadelphia's Gallery Place or Boston's Kendall Square, both essentially urban redevelopment projects. For essentially the same reason the report does not look at other joint development projects started under the former Urban Initiatives Program that were the subject of a previous UMTA report. [5]

In addition to discussing benefit/cost information, this report also briefly compares three basic approaches to planning and executing joint development projects -- for lack of better descriptors, what might be called (1) the Washington approach wherein WMATA staff performs a great deal of the substantive work itself, in coordination with local planning and economic development offices, (2) the Los Angeles approach wherein SCRTD and many other public agencies share that work more evenly, and (3) the Baltimore approach wherein MCDC, functionally, an arm of the city's redevelopment agency, performs almost all the substantive work, with relatively minimal involvement of the state-owned and operated Mass Transportation Administration (MTA). As part of this comparison, the report will provide some

discussion of the steps typically involved in joint development planning, and will attempt to describe some of the attributes of "good planning," particularly in terms of the problems likely to be encountered and how to avoid them.

TRANSIT AUTHORITY ACTUAL AND POTENTIAL SALE/LEASE
PROCEEDS FROM JOINT DEVELOPMENT AND SYSTEM INTERFACE PROJECTS
AND
PROGRAMS

Washington, DC

Ample evidence exists to show that joint development and system interface programs can be extremely profitable to those transit authorities pursuing them. WMATA, for example, reports that its six completed joint development projects produce a guaranteed annual revenue exceeding \$1.9 million. The cumulative revenue realized through September 30, 1983 was approximately \$6.3 million. The projected range of guaranteed annual revenue from October 1, 1983 through June 30, 1988, for these six projects and another six under negotiation or ready to market, runs from \$24.0 million to \$33.0 million [6], or from about \$0.4 million to \$0.5 million per project per year.

WMATA indicates that it may ultimately count at least 25 joint development projects in its Metrorail system. If all were as profitable as the first twelve projects, then the guaranteed annual return in some future year when all were complete and income-producing could reach \$10-\$12 million (25 projects times \$0.4 to \$0.5 million), about double the annual return currently expected for the first twelve projects (in 1983 dollars).

Actually, the annual return will likely be even greater, because of the way WMATA now writes its joint development leases. Such leases typically cover three stages: (1) a "development period rent" covering the typical 2-4 year

period that a joint development project may be under construction -- in effect, developers pay some rent even before they can realize a return from actual tenants, a requirement that not only helps WMATA's cash flow position but also helps assure prompt project completion by developers, (2) a basic "guaranteed annual rent," running from the first year beyond project completion through a 50-year lease period, and (3) an "additional rent," payable after a negotiated "floor" is reached, based on a percentage of gross income achieved by the developer. The WMATA figures noted earlier do not include this "additional rent."

Considered over a longer time frame, joint development value capture proceeds are even more dramatic. One WMATA study, for example, identified the major costs and benefits to WMATA and local jurisdictions of two proposed joint development projects to be completed in 1986 and 1990, respectively. In one case, net benefits were estimated at \$73 million over a 50-year period (1990 to 2040) in terms of present value, \$25 million to WMATA and \$48 million to the county. In the other case, it was found that the major incremental monetary benefits to WMATA and the participating county will exceed costs by \$130 million over a 50-year period (1985 to 2035) in terms of present value; net benefits to WMATA would be \$48 million, and to the county, \$81 million -- benefit-cost ratios of 39:1 and 45:1. [7]

In addition, WMATA has realized about \$0.5 million from system interface projects through September 30, 1983, and projects a return from such projects of between \$1.0 million and \$1.9 million from October 1, 1983 through June 30, 1988. WMATA says that opportunities exist in its planned Metrorail system for some 150 system interface projects -- simply additional access ways between rapid transit stations and adjoining properties, not joint development projects per se -- having an economic value of between \$60 million and \$75 million that could be shared between WMATA and the property owners. If shared in the proportion of one particular agreement now negotiated, WMATA could realize about \$36 million from these 150 projects.

Thus, the cumulative return to WMATA from the inception of its "station area development program," incorporating both joint development and system interface projects, through the year 2000 might run between approximately \$150 million and \$187 million (assuming all 25 joint development projects are completed by 1995, and each year produces rentals at the present average rate per project, for a total cumulative return of between \$112 million and \$149 million; and assuming cumulative system interface fees of \$38 million, as above).

These numbers are, of course, only projections and may not be realized. Nevertheless, they illustrate the very significant potential of a station area development program, and show why transit operators in other metropolitan areas could be seriously faulted for not attempting to emulate the WMATA program wherever possible.

WMATA's total value capture return would still represent but a small fractional share of the land values created by the construction of its Metrorail system. According to a study undertaken at the urging of Congressman Henry S. Reuss, then Chairman of the House Banking, Finance and Urban Affairs Committee, Metrorail had by the end of 1980, with less than a third of the system completed, generated well over \$2 billion in new land values in the Washington area. [8] The same study suggests that by 1990 Metrorail will have been responsible for an added \$10.5 billion in new land values.

WMATA could hardly be criticized, therefore, by skeptics of transit authority participation in real estate planning and development for realizing less than a two per cent share of that land value added (less, were the projection made to the year 2000). In fact, the Reuss study was critical of WMATA (and local governments) for not realizing a greater share of increased land values.

Importantly, all of WMATA's indicated proceeds are from leasing rather than from selling joint development property. Several reasons for favoring lease arrangements have been put forward by WMATA:

This method is considered most desirable for both WMATA and a potential developer. From WMATA's standpoint, this method would allow for the periodic upward adjustment of income throughout the lease period commensurate with the benefits realized by the development as a result of the completion and operation of the entire Metrorail system. As the full potential of these benefits are not realized by the current market, an outright sale will yield less in proceeds than the amount expected by the lease alternative. The developer is benefited by the lease alternative because it tends to reduce the amount of equity capital necessary to proceed with the project . . . Additionally, leasing affords WMATA greater control to safeguard its interests [as by assuring good maintenance, proper policing, and other management requirements]. [9]

Baltimore, MD

Reportedly, over \$50 million was invested in new office, residential, and commercial construction within 2,000 feet of nine stations even before the first eight-mile leg of Baltimore's \$797 million Metro system was opened November 1983 (another three stations are planned for the line's six-mile extension, now under construction). The total investment in Metro-induced land development probably now exceeds \$300 million.

The only tangible joint development proceeds to-date, however, stem from a sales agreement on a portion of land within the Lexington Market "value capture area" between the city and a private developer, from which the city, not the MTA, realized \$365,970 net of set-offs and charges against the property under an UMTA grant. The purchase price was based on re-use appraisals received at the time the agreement was entered into (September 1981) that placed a value of \$20.00 per square foot on the land within the value capture area. The proceeds were returned to a dedicated account for further public improvements associated with the project.

MCDC, a private, non-profit development corporation created by the city to manage and coordinate the city's development functions in and around rapid transit system value capture sites, says:

Since the city does not control public transportation in the region [MTA being a state agency], value capture theories are not entirely applicable here. Direct proceeds to transit operations are non-existent. However, indirect benefits from the project are occurring, and will continue to occur, as the value capture areas become fully developed. These indirect benefits arise in the form of increased transit ridership, increased tax revenues to the city from value capture development, and a development "ripple effect," wherein the properties in the vicinity of the value capture sites are experiencing private developer interest. In Market Center, a 175 acre Urban Renewal area surrounding the Lexington Market value capture site, there is already over \$200

million of public/private development underway. This development can be linked to the city's receipt of UMTA grant funds, as well as the city's determination, since 1980, to upgrade the area. [10]

Over the next five years, the city expects to realize an estimated \$998,000 from the sale of remaining value capture parcels in or near the Lexington Market, Reisterstown, and North Avenue rapid transit stations (contingent on approval of project financing for the Reisterstown and North Avenue projects). Proceeds will occur over a four year period during which time the city will act as mortgagee for the developer.

Conceptually, it is hard to understand why no arrangement was made to allow MTA to share more directly -- that is, over and above the benefits of increased Metro ridership -- in the market values created by its capital cost contributions to Metro construction. Notwithstanding that MTA is a state agency, it nevertheless is the entity that built and will run the system, and that will face the problem of operating deficits. Why should it not share in the values it helped create, as a means of offsetting those deficits? This question was not pursued to any explanation logically satisfying to this researcher.

Experience Elsewhere

In Los Angeles, upon completion of the so-called Wilshire Boulevard Metro (or 18.6 mile, 18-station "starter line" portion of a more extensive rapid transit system), the Southern California Rapid Transit District (SCRTD) expects to realize significant value capture income. The draft environmental impact statement (DEIS) estimates that 65-year leases (assuming a simple ground lease rate of 9 percent of the reuse value of the land in 1984 tied to the inflation rate) of air rights above the nine proposed stations offering the best development potential could produce about \$692 million, or about \$10.6 million per year in 1982 dollars. [11])

SCRTD was also successful in getting state enabling legislation passed to establish special benefit districts for

areas near transit stations. The establishment of each district is subject to the approval by at least 60 percent of the voters living within the district. Assessments can vary among districts; for example, SCRTD can take into account such differences as benefits accrued to property owners, and the size and cost of station facilities in different areas.

One commentator on the still-pending SCRTD choice between the conventional lease approach and the special assessment district approach notes that:

The advantage of a special assessment district as a value-capture mechanism for financing the construction of a rapid transit system is that all or a major portion of the station construction costs can be recovered from property owners in the station area. The drawback is that taxes collected in the district can only be used to repay construction bonds and not to provide operating revenue. Also, the total value that can be captured from a special assessment district is limited to the amount of tax revenue required to repay the construction bonds, and that may be much less than the total benefit derived by property owners from the presence of the transit station.

[12]

SCRTD's DEIS confirms that total receipts from special benefit assessment districts would be less than from conventional air rights leases at least through the year 2000:

If all development in station areas were assessed at an annual rate of 4 cents to 10 cents per leasable square foot (leasable floor area equals about 90 percent of gross floor area values used in this report), typical of recent U.S. transit-related assessment rates, from \$2.3 million to \$5.7 million could be generated in 1984 and from \$3.8 million to \$10.5 million per year in the year 2000 . . . [13]

Already, in recognition of the locational and market benefits linked to Metro's completion, land owners and developers and other private sector businessmen in the Los Angeles region have pledged \$170 million towards the construction of Metro, or about 5 percent of its estimated cost. This pledge can be taken to suggest (among other things) that the private sector actively anticipates participating in the multiple joint development opportunities

to be created, regardless of ultimate funding mechanisms chosen.

In San Francisco, the transit authority-administered joint development program is also just getting started, the Bay Area Rapid Transit system (BART) having been built without BART's involvement in joint development. BART now reports that it is presently negotiating two projects, probably representing two million square feet of leasable floor space, is doing preliminary planning for two other sites, and has a fifth site under preliminary consideration. The BART Board currently favors leasing floor space as a better way to participate in the longer-term appreciation of property values, but estimates are not available for the proceeds that BART may achieve from this form of value capture. Receipts are not expected until 1986, and "net profitability" may not be achieved for 7-8 years. Ultimate profitability is not questioned. [14]

In Denver -- cited here to make the important point that not all major joint development projects have to involve rapid transit station areas -- the Denver Regional Rapid Transit District (RTD) has leased air rights over the city's Civic Center Transit Facility to a developer for a minimum air rights rent of \$400,000 in each of the first 15 years, plus 38 percent of the developer's profit after it first deducts a 13.5 percent return on its cash investment. Upon expiration of the lease, RTD will own the 600,000 square-foot office building. In return, the RTD incorporated foundation support for the private development in its construction of the transit facility. According to the Rice Center report from which this information is taken:

The RTD spent a total of \$6.5 million on items leased [to the developer] of which \$2.6 million was for the land and \$3.9 million was for the costs of the foundation. RTD expects to receive a 25% return on its investment (\$1.6 million) from the lease for the first year of full operation of the building and to recoup its investment between the fourth and fifth years. Based on the assumption that the office building will be able to increase its net income at a rate of 6% per year compounded every five years, RTD estimates that income from the lease will be - 1985: \$1.6 million; 1986-1990: \$3.1 million; 1991-1995: \$5.1 million; 1996-2000: \$7.6 million. [15]

In Miami, the Metro-Dade Transportation Administration (MDTA), responsible for the planning, construction, and

operation of the Miami area's 20.5 mile rapid transit system, is making good progress toward implementing a number of joint development projects simultaneously with station construction. More than \$80 million worth of real property has been acquired along the system alignment, and the Board of County Commissioners in 1981 adopted a policy specifically favoring joint development as a means of recapturing land acquisition costs and offsetting portions of the Metrorail capital cost through private construction of parking and ancillary facilities. [16]

The Dadeland South Station joint development project is among the farthest along. There, through the issuance of industrial development bonds, the developer has built an \$11 million parking garage, where 1,000 of the 1,650 parking spaces are designated solely for transit patrons. According to agreement, title to the garage will revert to MDTA, and parking fees from the garage will amortize the bonded indebtedness. In addition, MDTA will enjoy a long term lease income from the project. Through April 12, 1984, MDTA's rental income from the garage project has been \$75,000. Other projects have moved forward as well, however, and MDTA reports a total "profit" to-date from joint development projects of about \$3.5 million, mostly in the form of station-related facilities such as parking garages built by developers. [17]

Projected joint development receipts for the next five years include \$4.5 million in lease fees and percentages of gross income from certain joint development properties, \$4.0 million in property taxes paid by tenants, and \$13.0 million from parking garages built and donated by private developers to MDTA -- a total of \$21.5 million. As will be seen in the subsequent section describing MDTA costs to achieve this return, an excellent benefit-cost ratio will be reached.

In Atlanta, the Metropolitan Atlanta Rapid Transit Authority (MARTA) has from the beginning emphasized the desirability of joint development policies in planning and building the first phases of the city's three-year old rapid transit system. From 1973 -- when property acquisition began -- until recently, however, MARTA derived no direct financial benefit from the numerous joint development projects completed.

The Authority nevertheless indicates that

MARTA's experience in joint development at this time has been very profitable to the City of Atlanta, State of Georgia and City of Decatur.

At the beginning of the rail project, there was joint development at the Decatur Station which is located in the heart of the Decatur business district. MARTA worked very closely with the business leaders to develop a mall at this station which has spearheaded redevelopment of this area.

At our Georgia State Station, MARTA through a joint development agreement with the State of Georgia constructed its rail station on the ground level of a 25-story twin office tower. This was done through the exchange of certain rights owned by both parties.

The fifty story Southern Bell Tower is located above the north concourse of the North Avenue Station, again this joint development was negotiated through exchange of certain property rights, each owned or controlled. [18]

Although none of these particular projects yield any direct value capture returns, MARTA's cumulative receipts to-date from the sale/lease of other Authority-owned property has now reached \$1,009,713. Projected receipts for the next five years are estimated at about \$4,422,000.

In Philadelphia, the Southeastern Pennsylvania Transportation Authority (SEPTA) indicates that it has not so far sponsored joint development projects in connection with its rapid transit system -- the well-known Gallery Place project having been sponsored by the city's redevelopment authority -- and has no costs or value capture proceeds to report. Further, although at least one project is pending, SEPTA says it is too soon to provide an estimate of possible lease proceeds (it intends no sales of joint development property). [19]

In Boston, the Metropolitan Boston Transit Authority (MBTA) is also just getting its joint development program underway, and indicates it can provide no information at this time. [20]

Summary

The WMATA program is the best example of a transit authority-administered joint development program that has been underway long enough to provide conclusive evidence of the profitability of such programs. WMATA's profit is, and will be, substantial: through September 30, 1983, some \$6.3 million, and projected through June 30, 1988, some \$24 million to \$33 million (with relatively minor reductions for staff and consultant costs). Joint development and system interface project proceeds through the year 2000 may exceed \$150 million -- a tremendously impressive figure.

In the remaining cases examined, value capture revenues accruing to transit authorities are still largely in the projected category. Nevertheless, it is worth restating that the combined value of joint development project air rights leases and contributed real estate may reach more than \$10 million a year in Los Angeles (\$692 million over a 65-year period), a cumulative \$17.4 million in Denver by the year 2000, and over the next five years totals of \$21.5 million in Miami and \$4.4 million in Atlanta. When, in the next section of this report, accompanying in-house staff, consultant, and occasional incremental capital costs are considered, the estimated net proceeds make it abundantly clear that joint development programs are profitable and should be pursued vigorously by any alert transit authority.

TRANSIT AUTHORITY ACTUAL AND POTENTIAL STAFF, CONSULTANT AND CAPITAL COSTS FOR JOINT DEVELOPMENT AND SYSTEM INTERFACE PROJECTS AND PROGRAMS

Washington, DC

WMATA indicates that its cumulative joint development program staff, consultant, and capital costs through June 30, 1983 were but \$1.3 million. This is broken down as \$500,000

for direct personnel, \$200,000 for support personnel, \$200,000 for administration, and \$200,000 for consultant services; WMATA's policy is that the developer pays any incremental capital costs associated with creating a joint development project at a transit station, and thus indicates that it has made no capital expenditures beyond what it would have made anyway in the absence of the joint development project. [21]

Projecting ahead through June 30, 1988, WMATA indicates that it will spend an additional \$3.0 million on its joint development program, broken down as \$1,000,000 for direct personnel, \$700,000 for support personnel, \$300,000 for administration, and \$1,000,000 for consultant services.

WMATA's costs for its system interface program are considerably less. Through June 30, 1983, it spent \$500,000; through June 30, 1988, it will have spent another \$400,000. The total cost is for in-house staff, with no consultant services indicated.

Thus, by mid-1988, WMATA will have spent about \$5.2 million on its total "station area development program" to achieve a value capture return of between \$31.8 million and \$41.7 million. At the same time, it estimates that, to-date, the capital value of its bus and rail facilities has been enhanced by about \$7.1 million through developer contributions to station construction associated with joint development and system interface projects.

While this is extremely impressive, two factors should be borne in mind. First, WMATA's METROail system is one of the newest in the nation, and is being completed at a relatively slow pace. Its newness has enabled both WMATA and developers to build on the successes (and to avoid the failures) of previous joint development/system interface programs in other cities; its extended time of completion has allowed developers an opportunity to observe the success of the early METROail joint development projects, and to need less encouragement to participate in future projects. In effect, success has bred more success. Second, many of METROail's new stations have been planned and built in areas considered "ripe" for intensive joint development -- areas having particularly healthy economic prospects even within a generally fast-growing metropolitan region.

This is not to take any credit away from WMATA's evident skill in proposing and consummating joint development/system interface packages. It is only a reminder that programs as successful as WMATA's may not always be possible in other

metropolitan areas, where comparable growth is absent, and where stations may not be located so advantageously. The converse of this reminder, of course, is that in planning new or extended rapid transit systems, and attendant station locations, careful consideration should be given to the opportunities for future joint development -- simply locating routes and stations to serve existing concentrations of development could prove short-sighted, if in doing so, important joint development opportunities were foreclosed.

Baltimore, MD

MCDC's joint development staff and consultant costs for the Lexington Center, North Avenue, and Reisterstown Plaza projects to-date total about \$1.1 million, compared to just under \$2.0 million budgeted. Some \$11.0 million has been spent for the capital improvements required, compared to the \$14.2 million budgeted. MCDC is somewhat unique in that it has UMTA approval to allocate \$1.7 million of its total UMTA grant for project management and coordination. A breakdown of staff and consultant costs by staff type and project phase is not available. [22]

As noted elsewhere in this report, none of the value capture proceeds from these MCDC projects will accrue directly to the transit operator. In reply to the question of joint development "profitability," however, MCDC says:

. . . to the city as a whole, it would seem that the indirect benefits in the way of increased transit ridership, taxes, increased development and job retention/creation in or near value capture project areas, in the long run, will eventually equal and may far exceed project costs. The program, by its nature, is a long term commitment, and its success cannot be measured by a simple balance sheet approach. Returns to the MTA on its sale to the city of value capture parcels, originally used as subway construction staging areas, will exceed the cost to the MTA when it purchased the parcels in 1977-1978. These returns are due primarily to the appreciation in land value of the parcels since the time of their original purchase. [emphasis added] [23]

Experience Elsewhere

In Los Angeles, SCRTD's joint development program is only just getting organized, and staff have been unable to provide cost data for this study.

In San Francisco, where, despite its maturity as an operating system, BART's joint development program is just as new, about \$202,000 has been spent to-date for salaries (including fringe benefits), of which \$175,000 has been for planning staff, \$20,000 for legal counsel, \$4,000 for real estate staff, and \$5,000 for construction/engineering staff. In addition, \$275,000 has been spent for consultant services, and \$40,000 for two, annual joint development "design competitions" designed to attract favorable attention to the program. [24]

Over the next five years, BART expects to incur \$1,310,000 in staff costs, consisting of \$945,000 for planning, \$100,000 for legal, \$15,000 for design/construction, and \$250,000 for real estate staffs. Consultant services will cost another \$500,000. No capital costs have been incurred, nor are any projected.

In Denver, the RTD indicated that it was unable to provide reliable information on the costs of its Civic Center Transit Facility at this time. [25]

In Miami, cumulative in-house staff costs relating to joint development to-date total about \$400,000, of which \$100,000 has been for planning staff, \$100,000 for legal counsel staff, and \$200,000 for joint development staff. MDTA has not engaged any consultants for joint development planning or operations. Projected costs for the next five years are \$1,500,000 for staff and \$100,000 for consultant services. [26]

With a total projected "profit" through the next five years of some \$23.5 million, against a total cost of some \$2.0 million, MDTA's joint development program will yield a benefit-cost ratio of almost 12:1. This is most impressive, especially considering the relative newness of the MDTA program.

In Atlanta, MARTA's "ball park" estimate of in-house staff costs is that they have "not exceeded \$200,000 to date," and that such costs over the next five years will not exceed \$450,000. [27] MARTA's cumulative consultant costs to-date are reported at \$250,000, with only minimal additional costs expected in the next five years. In addition, MARTA's cumulative capital costs for joint development projects has been \$826,000 over and above the basic cost of station construction.

MARTA estimates that its grand total profit from joint activities to-date have been about \$800,000, and for the next five years will be around \$3.5 million to \$4.0 million.

In Philadelphia and Boston, no information about staff and consultant costs is available from the cognizant transit authorities on account of the newness of their joint development programs.

Summary

As with value capture proceeds, except for WMATA, and perhaps Miami, Atlanta and Denver, information about staff, consultant and capital costs attaching to joint development programs undertaken by transit authorities to-date is still too incomplete to warrant making definitive conclusions. In general, however, it appears that these costs are quite modest in comparison to the revenues achievable from value capture.

Clearly, in WMATA's case, value capture proceeds have far outpaced the costs of gaining them: the actual benefit-cost ratio through June 30, 1983 being approximately 4:1, and as estimated through June 30, 1988 being between approximately 7:1 and 10:1. If the capital value of real estate interests contributed by owners, and the capital value of bus and rail station facilities contributed by private developers is added, the benefit-cost ratio through June 30, 1983 rises to almost 8:1. Further, if the net additional transit ridership and farebox revenues attributable to the joint development/system interface projects so far completed were also added, the benefit-cost ratio to-date would be well over 10:1 -- a remarkable accomplishment.

Miami's experience to-date is also impressive: a "profit" of some \$3.5 million on a staff expenditure of only \$400,000, or about an 8:1 benefit-cost ratio. Atlanta's experience over the next five years may not be dissimilar: an expected "profit" of up to \$4.8 million on a staff-plus-consultant and capital expenditure of approximately \$1.7 million, or about a 3:1 benefit-cost ratio. Denver's experience may prove to be the best of all: by the year 2000, as much as \$17.4 million in cumulative lease returns, as well as ownership of a major office building, against a capital cost of about \$6.5 million and unspecified but probably minimal staff and consultant costs.

Although the available information is not conclusive, it appears that at least three to five years will usually, but not always, elapse between a transit authority's making initial joint development program expenditures and its receiving significant value capture proceeds. While it is possible, as in WMATA's case, to negotiate lease payments that begin well before a joint development project is actually complete and earning revenue for its developer, this arrangement may depend upon the transit authority's first having a proven track record. Some of the other factors that determine the elapsed time between expenditures and proceeds are discussed in the next section about the joint development planning process.

THREE INSTITUTIONAL APPROACHES TO JOINT DEVELOPMENT PLANNING AND IMPLEMENTATION

At least three institutional approaches to joint development planning and implementation have been described. [28] For brevity, they can be called the Washington, the Los Angeles, and the Baltimore approaches:

- The Washington (or autonomous authority approach) calls for the establishment within a transit authority of a single special department responsible for a comprehensive station area development program, including the preparation of station area development prospectus materials, and the negotiation of property sales and leasing. At WMATA, land acquisition has been the responsibility of the Office of Real Estate, and station area development planning and implementation has been the responsibility of the Office of

Planning and Development; in other metropolitan areas, however, these functions might be found combined. Other local agencies remain responsible for planning and coordinating land use development adjacent to joint development sites, and are often key actors in developing the site plans themselves.

- The Los Angeles (or cooperative agreement approach) finds various local public agencies, including the transit authority, entering contractual agreements that combine their planning responsibilities and legal authorities to carry out those specific development and infrastructure-related activities most appropriate to their particular expertise. Planning and coordinating both on-site and adjacent land use development is generally more of a joint effort than in the autonomous authority approach, and certain new real estate project approval mechanisms, including extensive public participation, may be needed.
- The Baltimore (or transportation corridor development corporation approach) requires the creation of a special-purpose public or quasi-public entity to coordinate and package land use development both within the entire corridor and within the station areas of a rapid transit system. A TCDC normally operates under the authority and budget control of a municipality, and, while it cooperates closely with the transit authority, its decisions with respect to station area development are binding on that transit authority.

Each of these institutional arrangements appears to this researcher to have certain advantages and disadvantages (users of the different approaches can probably advance others, and may find the following summary far too simplistic).

The Washington approach has the virtue of relative simplicity and directness. Working within the context of local plans, the transit authority undertakes site-specific planning, prepares a prospectus describing the joint development opportunity, seeks bids and usually (but not always) accepts one, and construction by a developer goes forward. It has been argued, however, that this approach (1) may rely too much on hiring and retaining an extremely skilled transit authority staff, while not taking full advantage of other public agency staff expertise in land use development and marketing techniques, (2) may limit the level and type of financial leverage tools available to package joint development projects, and (3) may not always provide for full feedback between areawide land use plans and the

longer term effects of station area development, that is, secondary land use development in the vicinity of the joint development projects may be somewhat ignored.

In Washington, however, WMATA insists that it maintains full coordination with regional, county, and city planning and economic development agencies:

It is very deliberate on WMATA's part to refer to the Station Area Development Program. WMATA fully participates in discussions and planning [even] where WMATA has no foreseeable joint development or system interface projects. WMATA benefits from this approach by 1) ridership increases, 2) helping to create a good quality station area environment, and 3) enhancing the "good will" factor. [29]

The Los Angeles approach is somewhat the reverse -- the alleged disadvantages just listed for the Washington approach are considered to be the advantages of the Los Angeles approach: It certainly utilizes all available public agency expertise, provides for employing a wider range of financial leveraging tools, and emphasizes station area/transit corridor/regional planning coordination. Perhaps predictably, however, with many public agencies involved (in Los Angeles, for example, the Southern California Rapid Transit District, the City of Los Angeles Community Redevelopment Agency, the City of Los Angeles Planning Department, the City of Los Angeles Department of Transportation, and the County of Los Angeles Planning Department), developing and maintaining agreed upon goals and objectives, as well as continued coordination and cooperative, are formidable burdens. Institutional complexities can lead to "turf battles" and delay the implementation of projects.

The Baltimore approach seems to resolve many of the possible disadvantages of the Washington and Los Angeles approaches, but at some price to the transit authority. Planning and implementation powers are centralized in a single, "one-stop" agency that may have the greater confidence of developers, the greater variety of available financing mechanisms, and the greater ability to negotiate favorable property sale and lease agreements (among other things, a transit corridor development "corporation" can hire special staff at greater than prevailing public agency salaries). On the other hand, the transit authority may be relegated to providing only the requisite transportation services necessary to make joint development projects work, perhaps have too little say about the nature of those

projects, and not participate financially in value capture proceeds.

This brief review of institutional approaches to joint development is not for the purpose of recommending a particular approach as "best." Indeed, contributors to this study were nearly unanimous in suggesting that there is no "best" approach. Everything depends on the variable inter-agency, inter-personal, and political backgrounds found within different metropolitan areas. The approach that "works" in one area may not work in another. Any transit authority just beginning to contemplate a joint development program is well advised to consider all of the approaches used to-date -- and, with permutations, there are certainly more than the three outlined -- before deciding what may be most appropriate in its particular jurisdiction.

The question at hand, actually, is whether the institutional approach makes any difference in terms of the total value capture achievable -- the share of created land values returned to public coffers in return for public expenditures to improve transit systems. This question, of course, assumes that there is probably some definable "fair share" of created land values that should be returned to the public coffers. Our review of joint development literature reveals no such definition, and the nature of the present study allows for little beyond speculation about the efficacy of any particular institutional approach in better achieving a "fair share" return.

The Washington and Los Angeles approaches may yet prove equally effective in obtaining for the transit operating agency the best systemwide value capture percentage of total public agency expenditures. The Washington approach, especially as it has matured in application, must already be seen as highly successful. The Los Angeles approach will remain essentially untested until the first leg of the rapid transit system is nearing completion, and the exact mechanisms for value capture by the transit authority have been definitively established (at this writing, they have not been). Presumably, staffs under either approach can be equally skilled at negotiating favorable sale/lease agreements, and, while the Los Angeles approach may inherently provide more options for innovative financial mechanisms, developers might find the conceptually more complicated and thus possibly more time-consuming Los Angeles approach less conducive to "deal-making." In short, as between the Washington and Los Angeles approaches, the ultimate experience may show that some of their theoretical institutional advantages and disadvantages may tend to cancel

out.

From the standpoint of the transit operating agency, the Baltimore approach is probably the least attractive, because value capture proceeds accrue to the city and not to the operator (it has already been noted, of course, that this need not always be the case with this approach). However, with joint development projects definitively linked to overall city development/redevelopment goals, this approach is probably the most responsive to long-term growth objectives, and may best reconcile demands for better transportation versus demands for orderly, manageable land use plans. The aggregate value capture -- in terms of contributing to total city growth and economic prosperity -- may very well be greater than that accompanying what some might call the more limited objectives of station area-limited joint development projects. It can then be argued that a healthy city/regional economy is the best ally a transit authority can have, and thus that it is immaterial whether the authority shares directly or indirectly in value capture proceeds.

The foregoing discussion suggests the following general conclusions: (1) joint development programs clearly create new values from the expenditure of public funds for transit system improvements, (2) some "fair share" of this new value should revert to the cognizant transit authority to be used either for capital improvements or operational needs, and/or local governments for the purpose of supporting transit directly or indirectly, (3) the most equitable and effective means of doing so is probably still evolving, and (4) in order for joint development programs to reach their full potential as a source of funds supportive of transit system construction and operation, this question seems to warrant much more research. Such research might show that the "best" approach may well be a hybrid combining the better features of all the approaches taken so far.

Summary

A number of institutional approaches to joint development can be taken. As yet, however, there is insufficient experience with any of them to say which might be best. Indeed, there may be no "best," only what seems to work in

particular city settings. Any transit authority considering the start-up of a new joint development program should assemble and analyze as much information as possible from other authorities with existing programs before deciding what approach may be most appropriate for its own particular circumstances.

IMPORTANT ATTRIBUTES OF "GOOD" JOINT DEVELOPMENT PLANNING

Regardless of institutional approach, the cumulative experience to-date suggests that "good" joint development planning processes share a number of common attributes. Before identifying some of them, it may be useful briefly to outline what could be called the "typical joint development steps" a public agency might take in embarking on a joint development program. Figure 1 shows a three-phase process described in a recent study for the UMTA Office of Planning Assistance by Public Technology, Inc. consisting of (1) public policymaking and planning, (2) developing a marketable project, and (3) dealing with developers. [30] This general process would be followed regardless of whether the public agency were a transit authority, an industrial/economic development agency, an urban renewal or redevelopment agency, or a transit corridor development corporation. Each of the three phases includes various specific actions, some of which may be concurrent, but most of which tend to be taken sequentially.

Within this general process, different public agencies would probably need to prepare different conceptual flow charts of the process from early planning and analysis through implementation. Not every agency would need to take precisely the same steps. WMATA, for example, has established a 33-step flow chart, as shown in Figure 2. The first 14 steps are primarily planning-oriented, while the remaining 19 steps are more development or implementation-oriented. The flow chart provides for "stops" in the process to indicate that some proposed projects may ultimately prove infeasible of accomplishment.

Although "good" joint development planning might simply mean doing an outstanding job at each step of such as WMATA's process, discussions with practitioners and a review of the literature on joint development planning suggest that certain

FIGURE 1
TYPICAL JOINT DEVELOPMENT STEPS FOR A PUBLIC AGENCY

FIRST PHASE - PUBLIC POLICYMAKING AND PLANNING

- Identifying joint development opportunities
- Defining joint development goals and policies
- Coordinating with other public agencies
- Building public support

SECOND PHASE - DEVELOPING A MARKETABLE PROJECT

- Preparing a project budget
- Assembling a project team
- Preparing a market analysis and concept plan
- Resolving public issues related to:
 - Intergovernmental coordination
 - Special studies
 - Legal authority
 - Capital improvement
 - Regulatory changes
 - Additional land assembly
 - Accessibility between the transit facility and the private development
 - Funding and financing
 - Public information

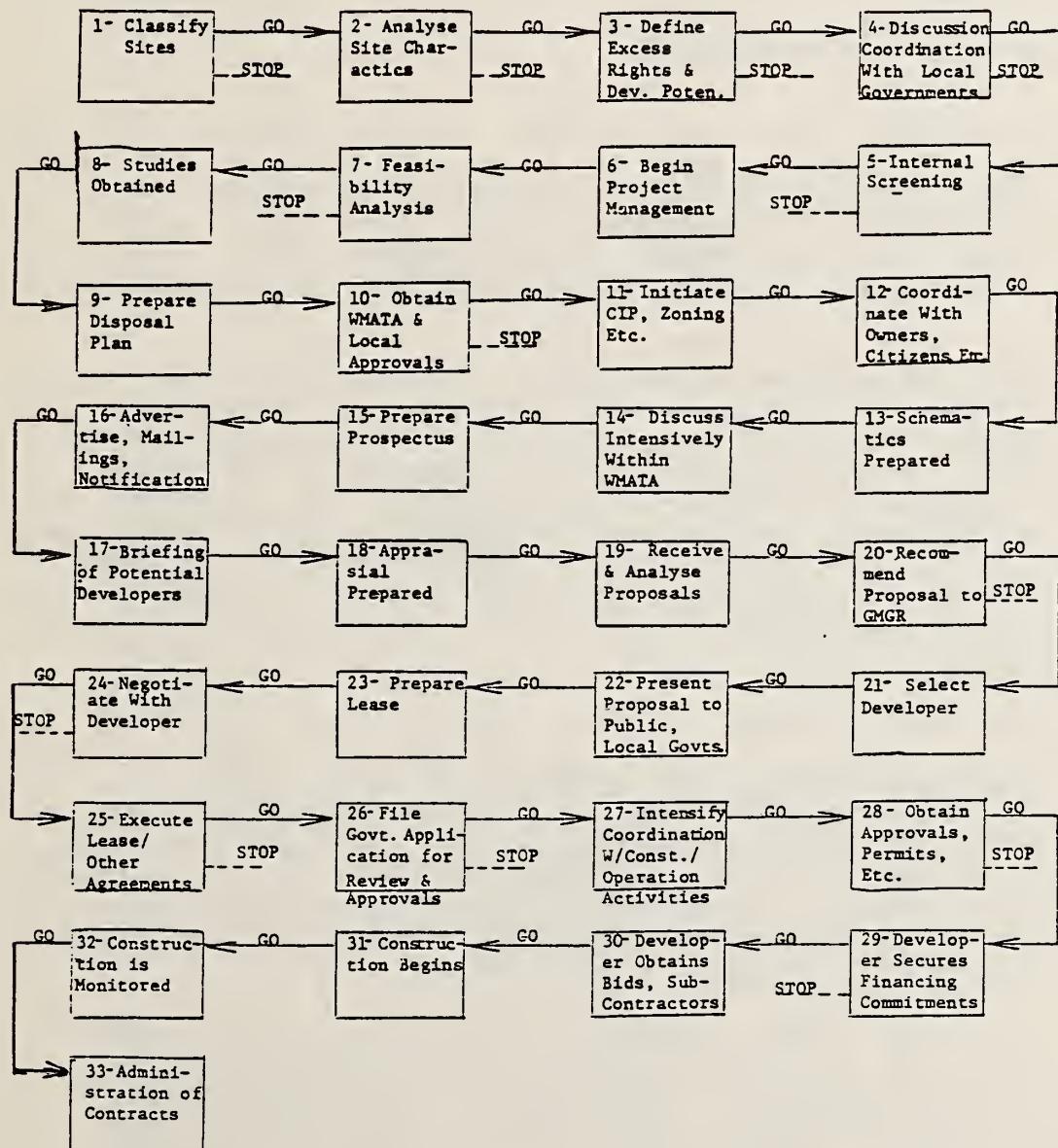
THIRD PHASE - DEALING WITH DEVELOPERS

- Locating interested developers
- Selecting a developer
- Negotiating an agreement
- Specifying the role of a developer
- Monitoring the developer
- Renegotiating with the developer
- Adhering to commitments and schedules

Source: Public Technology, Inc., Joint Development: A Handbook for Local Government Officials, prepared for Office of Planning Assistance, Urban Mass Transportation Administration, Washington, DC, September 1983.

FIGURE 2

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY'S
JOINT DEVELOPMENT PROCESS



Source: Public Technology, Inc., Joint Development: A Handbook for Local Government Officials.

steps, usually taken early in the process, are more important than others. The intent of the following discussion, then, is to emphasize those planning-related steps that seem to this researcher among the most crucial to the eventual success of a joint development program.

Developing the Policy Context

A successful joint development program calls for the adoption of a whole package of integrated policies, not only with regard to how joint development projects themselves will be planned and implemented, but also with regard to long-range city and regional developmental goals, and how joint developments projects may contribute to reaching those goals.

Los Angeles provides an example: in brief, the city master plan adopted in the late 1960s called for increasing the developmental density both in the central business district and at a number of outlying commercial centers (a multi-nucleated city form); subsequently, in planning the Wilshire Boulevard Metro Rail "starter line," an obvious means of making those higher developmental densities a reality was to connect some of those outlying centers and locate station stops with high potentials for joint development in them.

Within this general context, SCRTD took the lead in developing, first, a set of twenty-one land use and development objectives, addressing four main issues: (1) the corridor-scale institutional planning framework, (2) the station area masterplanning process, (3) the joint development program, and (4) the mechanisms for value capture. Relatively concise policy statements dealing with each of these issues were then developed and adopted in 1982 by the SCRTD Board, as follows:

1. In order to ensure that an orderly and effective corridor-scale joint development process is implemented in support of the Metro Rail project, the SCRTD shall enter into cooperative agreements with the City of Los Angeles Community Redevelopment Agency, City of Los Angeles, Los Angeles County, and other agencies to establish a

specialized entity to: 1) direct a comprehensive station area masterplanning process at each Metro Rail station; 2) package specific joint development projects; 3) negotiate appropriate and equitable value capture agreements and administer other joint development mechanisms; 4) provide ombudsmen support services to facilitate joint development project implementation; and 5) monitor the implementation of the Metro Rail station masterplans. This corridor-scale joint development implementation program shall be formulated in a manner consistent with the governing transportation system and urban development in Los Angeles Metropolitan Area.

2. The specific content and form of the short- and long-term Metro Rail land use and development program will be established through a comprehensive station area/corridor area masterplanning process. The adopted station area/corridor masterplans shall be formulated in a manner consistent with the existing general land use planning process and will become the prevailing guide for all future land use development in these areas. The station area masterplans will build on the specific area plans now being developed by the Los Angeles City and County Planning Departments and will be refined through major community and private sector input. The station area masterplans shall be completed prior to the construction of the Metro Rail system and be expedited to be coordinated with the final Metro Rail station design efforts being conducted by SCRTD.

3. The SCRTD shall adopt an active "project packaging" approach to the joint development of the Metro Rail station areas. This station area joint development packaging effort will be directed through the cooperative agreements between the SCRTD and the Community Redevelopment Agency of Los Angeles, the City of Los Angeles, Los Angeles County and other agencies, as required, and be totally consistent with the adopted station/corridor area masterplans. On an opportunity basis, the SCRTD will infuse leverage capital funds to ensure that successful joint development occurs. Joint development undertaken shall include a compatible mix and diversity of land uses which will attain and sustain the highest level of system operating efficiency and revenue

without interfering with the private marketplace.

4. The SCRTD shall secure a sustainable level of value capture revenues from the public sector investment in the Metro Rail Project, for the express purpose of sharing in the economic benefits derived from the system's implementation to support its ongoing operation and expansion. Station cost sharing agreements, connector fees, and land/air rights leasing shall be directly negotiated with existing and future developments, physically or functionally linked to each Metro Rail station area. These agreements shall be negotiated by the SCRTD from an equitable and consistent set of pre-established principles. Full consideration shall be given in defining the terms of these agreements to enhance joint development feasibility during the critical first five years of commercial building and system operation. The revenue objective for the Metro Rail Value Capture Program shall be to secure a sustainable annual cash flow stream at least equivalent to the capitalized 1982 costs of the Metro Rail facilities. This is approximately equivalent to 25% of the total Metro Rail system capital costs. This level of private/public coventure participation in the Metro Rail system is consistent with recently attained results and adopted value capture programs in other major U.S. metropolitan areas. In addition, the majority of ongoing station maintenance and security costs should be recovered through a successfully targeted and equitable Metro Rail Value Capture Program.

[31]

Somewhat similarly, in Miami, the Metro-Dade County Comprehensive Development Master Plan (CDMP) provides a general policy framework for the implementation of development projects in conjunction with the Metrorail system being built there. The CDMP calls for the creation of high-intensity activity centers related to the county-wide transportation network and linked, where possible, by rapid transit facilities. Within this framework, the Metro-Dade County Transportation Administration developed ten specific joint use program objectives, and from those objectives, a single overall joint use policy, formally adopted by the Board of County Commissioners in 1981, as follows:

It is the policy of Metro-Dade County to permit, encourage and actively pursue joint use projects on

Metrorail property including office, commercial, residential and other facilities in order to promote the safety, convenience, accessibility, environmental quality and economic benefits of the general public. [32]

WMATA's formalized station area development program also began in 1981 with the development and adoption of specific goals and objectives. The goals included enhancement of levels of mass transit use, conservation of petroleum-derived energy; allocation of scarce resources in more optimal fashion, reduction of urban sprawl, and encouragement of good quality development. The objectives included reduction of petroleum product use in the transportation sector, substitution of greater numbers of auto trips with rail/bus trips; reduction of travel time; addition of real property to the tax rolls, increase in tax base, improvement of cost/benefit ratios of public goods and services provided by local government, and provision of revenue to WMATA for subsidy offset.

From these goals and objectives, WMATA formulated and adopted the following policies:

1. It shall be the general policy of WMATA to promote, encourage, and assist in the creation of high-quality, more intensive development at or near appropriate station areas.

2. It shall be the policy of WMATA to study the development potential which may exist at present or future station areas and to prepare a development program, and in a longer range time frame, with a three to five year work program, and in a longer range time frame, which will identify actions and positions by the Authority to enhance or protect the longer range development potential.

3. It shall be the policy of the Authority to advocate positions before the public, local government entities, the development community, and others which promote high-quality, more intensive development at or near station areas. [33]

Citing these particular policies (other examples could be added) illustrates some of the important preliminary decisionmaking inherent in undertaking joint development programs -- in several instances, fundamental decisionmaking that should, whenever possible, be expressed explicitly through policies adopted and published before a joint

development program gets underway. Such policies can be detailed, as in Los Angeles, or general, as in Miami and Washington (where the less detailed policies appear to have been fully successful). Their great usefulness lies, first, in providing guidance to the professional staff that implements the program, and, second, in providing basic information and ground rules to elected officials, businessmen, developers, financial institutions, and the general public.

Developing the Regional Planning Context

A joint development program should not simply be "grafted" on to the construction of a rapid transit system or other major transit improvement. Considerable care must be exercised that the program is consistent with recognized land use plans at every planning level -- within station areas, within broader corridors served by the rapid transit system, and within the region as a whole. Put simply, there should be an awareness that there is probably a "right amount" of growth to be accommodated at station areas and throughout a rapid transit corridor: too much growth might adversely affect existing development, and overtax the existing infrastructure's capacity (including highways as well as transit facilities) to handle it; too little growth might waste the joint development opportunities presented, and generate insufficient tripmaking to properly support the new rapid transit system.

Striking the right balance can be difficult. Again, Los Angeles provides an interesting (and possibly surprising) example of this difficulty. The comprehensive land use plan adopted in the late 1960s, espousing greater development densities in various outlying commercial centers, set unusually high floor-area-ratio targets (in effect, average allowable building heights). Now, with rapid transit stations planned for many of those centers, some existing residents and commercial landholders for the first time see the possible construction of high-rise office buildings (reflecting those high-density developmental targets) as a threat to community amenities, and have generated considerable pressure through city councilmen to oppose this possibility. In preparing station area master plans, and revising the city-wide comprehensive land use plan

accordingly, the City Planning Department finds itself in the awkward position of contesting with the transit authority over permissible development densities, SCRTD arguing in favor of the older, now somewhat discredited, higher densities originally proposed by the City Planning Department, and that department arguing for lower densities.

This is a serious question, because the Metro Rail line (and comparable rapid transit systems under construction elsewhere) may well generate more development more quickly than is desirable from a regional planning point of view. Overbuilding for speculative purposes can result in high vacancy rates, and actually inhibit sensibly sustained development. The City Planning Department expects that Metro Rail line construction will result in a net addition of between 40 million and 50 million square feet of office and commercial space within the regional core area by the year 2000. Of this total, about 20 million square feet is likely to be added in the immediate vicinity of Metro Rail stations.

In Washington, a recent study by the Metropolitan Washington Council of Governments has found that between 1979 and 1982, \$2 billion has been spent on commercial buildings near METRO rail station areas. During that period, some 35 million square feet of floor space in office, hotel and motel, and other commercial development has been added in existing or future station areas, representing 48 percent of all commercial development in the region. [34] In addition to joint development on station sites, then, new rapid transit systems can generate tremendous growth potentials in contiguous areas, and this potential needs to be accounted for, if not directly managed, in connection with any joint development program.

Developing the Private Sector-Public Sector Partnership

Joint development programs obviously involve developing public and private sector partnerships -- a subject attracting increasing national attention. The principles of successful partnerships are multifold, and the transit authority first embarking on a joint development program would do well to understand some of those basic principles.

The UMTA-sponsored conference, "Improving Urban Mobility Through Public-Private Cooperation," held early this year in Dallas, Texas advanced many different definitions of transportation partnerships, reflecting the many variations possible with regard to financing amounts, terms, mechanisms, and sharing of decision-making powers. A number of speakers were in general agreement, however, that successful partnerships seem to share at least the following characteristics: (1) active and persuasive personal leadership on both sides, (2) clear and specific identification of the objectives to be achieved, (3) flexibility for negotiating alternative plans, rather than presupposing only a single acceptable plan, (4) truly shared planning and implementation responsibilities, rather than only the appearance of sharing, and (5) a resulting "win-win" result, with benefits accruing to both sides. These characteristics apply to joint development projects as much as to any other form of transportation partnership.

In some instances, the transit authority embarking on a joint development program may need to accept several new points of view. Working with the private sector may involve (1) establishing more "businesslike" procedures (the sometime-lack of which is a familiar complaint of many businessmen dealing with public agencies) geared to the timing and complexities of the private market place, (2) developing trust and understanding of private sector profit incentives - the private sector must obtain a fair return on its investments, but is not "out to take advantage" of the transit authority, (3) accepting that a public agency has every right, and perhaps even a responsibility, to seek some reasonable share of the increased land values it has helped to create by the investment of public funds, and so forth. Of course, private sector representatives beginning to work with a transit authority may also need to adopt some new viewpoints, most of them mirroring the revised viewpoints of the transit authority. Business-as-usual is not the way for either side of the partnership to approach joint development.

Throughout, the partnership process should include a public participation program. Aside from the fact that federal regulations require such a program where federal transportation funds are involved, public participation may make good business sense by helping to avoid political confrontations over any comprehensive plan revisions necessary in planning and implementing station area master plans. The Los Angeles program has, with good effect, placed heavy emphasis on public participation throughout its corridor and station area master planning processes.

Developing Real Estate Packaging Resources

Having prepared explicit joint development policies, accepted the need for coordinated station area/transit corridor/regional land use planning, and adopted a true "partnership" frame of mind, the transit authority entering upon a joint development program should recognize at least one more fundamental planning need: that for organizing an adequately sized and experienced joint development staff to undertake real estate project packaging. Often the expertise required is not present in transit authority management or planning departments, and must usually be developed by bringing in new staff specialists.

According to SCRTD:

Real estate project packaging is a complex process that involves: market and financial feasibility analyses, architectural and construction cost reviews, land use appraisals, and direct private sector negotiations. Essentially, it is an "active," not a "reactive" function, that stimulates financially sound, high quality real estate investment in locations that meet adopted public sector/local community development objectives. In the case of transit station joint development, the professional staff carrying out this function must also be intimately aware of the individual land use market and financial impacts of a rapid transit system. Finally, the staff must have the professional background and ability to effectively interface with the private sector.

[35]

Necessary staff for this function should be "brought aboard" early enough in the overall joint development planning process to affect decisionmaking about appropriate station area master plans -- not just subsequently when the first prospectus, or offering for development, must be prepared. Moreover, the necessary staff should not be underestimated. Considering the large payoffs to be gained from successfully negotiated sale/lease agreements mentioned previously in this report, it would seem penny-wise and

pound-foolish to skimp on salary costs in the early stages of a joint development program. (At least two of the transit authorities providing information for this report are apparently doing just that, not recognizing the complexity of the undertakings expected to be accomplished, with possibly adverse consequences yet to be realized.)

Summary

Step-by-step processes for joint development planning have been developed by several transit authorities. The processes vary according to the institutional arrangements in particular jurisdictions. Within these processes, it is possible to select out several individual steps that merit special attention, among them developing (1) the policy context, (2) the regional planning context, (3) the public sector-private sector partnership, and (4) the staff resources necessary to do the job. Each of these steps should be taken as early in the overall planning process as possible to ensure the best chances of success.

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